

Memorandum



Date: July 18, 2006

To: Honorable Mayor Carlos Alvarez
Honorable Chairman Joe A. Martinez
and Members, Board of County Commissioners

Supplement to
Agenda Item No. 14(B)2

From: George M. Burgess
County Manager

A handwritten signature in black ink, appearing to read "Burgess", written over the printed name of George M. Burgess.

Subject: Port of Miami Tunnel Project

The Florida Department of Transportation (FDOT) has approached the County to be an equal funding partner in the Port of Miami (the Port) tunnel project. As you are aware, this is a project with a final cost anticipated to exceed one billion dollars. While discussions are on-going with FDOT in many significant areas, not the least of which is funding, County staff and our port consultants have diligently analyzed the various options and impacts in order to meet FDOT's extremely aggressive project time-line. The agreement with FDOT has been that no formal Request for Proposal (RFP) will be issued until a feasible funding plan has been developed that is acceptable to the County and FDOT. FDOT seeks to solidify a funding partnership with the County in short order so that they may proceed with a procurement process -currently at its mid-point - with the hope of making an award to a private *Concessionaire* by the end of the calendar year.

I want to state at the outset that the County is fully supportive of the tunnel project. To that end, I have been in frequent communication with Secretary Denver Stutler and other officials at FDOT, and have discussed this project with officials at the City of Miami, including the Mayor and the City Manager. The magnitude of this project, combined with the lack of Federal funding, makes necessary a large degree of local participation. We are currently examining the maximum commitment which could be made from the Port without jeopardizing its competitive position. At the same time, we are exploring other local funding sources, including from the City of Miami.

It should be noted that the County was recently made aware of a competing idea for a tunnel path, which potentially could be constructed at a lesser cost. FDOT has informed us that it previously reviewed all logical alternative tunnel paths before settling on the current plan and will provide us information by Friday, July 14, concerning the feasibility of the proposed alternative, identifying any fatal flaws and providing cost estimates. Depending on the results, further discussions with FDOT may take place (or the option may be completely abandoned as inferior to the tunnel). Although substantial information gaps exist at this stage in the project, the County remains an active partner with FDOT in coming to a positive solution for Port access.

This memorandum provides details concerning the on-going State procurement process; an overview of the tunnel project as envisioned by the State; key elements of the project cost analysis and concession payment mechanism; the highlights of on-going discussions between the County and FDOT; and, finally, an overview of the range of financing alternatives being considered by the County given the high availability payments required to make this project feasible at the participation levels being requested of the County at this time.

BACKGROUND

For some time now, public officials and planners in South Florida have been attempting to reconcile the growing land transportation needs of the Port with efforts to revitalize eastern portions of Miami's downtown. Anyone who has recently traveled the roads in question quickly comes to realize how this transportation corridor is under duress, as ever longer lines of trucks snake through rising numbers of

commercial and residential construction sites.

As the major funder and developer of large scale ground transportation assets in the state, FDOT is well positioned to address these needs. Over the last half decade, FDOT has examined a number of proposed above ground and below ground transportation solutions that would take 1.3 million port-bound trucks annually out of Southeast Overtown and off Biscayne Boulevard. It is their conclusion that the best overall alternative is the construction of a tunnel, linking the Port with the local highway system by way of Watson Island. As described above, FDOT is quickly moving to pursue a workable funding strategy for the tunnel, as well as a private partner who would design, finance, construct and operate the tunnel.

PROJECT DETAILS

The project consists of three primary components: (1) widening of the MacArthur Causeway Bridge; (2) tunnel connections between Watson Island and Dodge Island; and (3) connections to the Port of Miami roadway system. (More in-depth discussion of these project details is available from the FDOT project website: www.portofmiamitunnel.com.)

The project model calls for the formation of a Public/Private Partnership (PPP) between FDOT and a *Concessionaire*. FDOT selected to pursue a PPP because of the extraordinary complexity of building a tunnel, vis-à-vis the bridge and roadway projects it typically undertakes. The PPP structure allows FDOT to distribute risks, gain access to additional skills, improve efficiency and increase the pool of financial resources available to the project by selecting a qualified private Concessionaire. The Concessionaire will be responsible for designing, building, financing, operating and maintaining the tunnel. FDOT will, in turn, pay the concessionaire a portion of the total project cost as milestone payments during the construction period (the first 5-6 years of project) and then will pay the remainder as quarterly availability payments, which are based on the availability of tunnel sections for public use, over the remaining years of the concession. The projected concession term is 35 years, beginning at the signing of the agreement and extending until 2041.

The project calls for the Concessionaire to operate and maintain the tunnel portion for the 30 years following its construction, while the above-ground sections will fall under the jurisdiction of FDOT immediately after they are built. FDOT developed this particular concession concept, including the compensation mechanism described in this memo, based on research of past tunnel projects in the US and abroad. The proposed concession structure is preferred by industry, and was designed to leverage the advantages of long-term guaranteed cost structures, risk sharing strategies, and life cycle cost efficiencies.

The tunnel project is of obvious advantage to the Seaport and the City of Miami. First, it would provide direct access between the Seaport, I-395 and I-95, thus speeding up the flow of the County's ever-expanding import/export traffic. Port-related commerce generates \$16 billion in economic activity annually, and is projected to increase greatly in the years to come. Second, the tunnel will relieve congested downtown Miami streets of large and growing Port traffic flows, improving safety and complementing ongoing urban revitalization efforts. Third, the project facilitates ongoing and future infrastructure development plans in and around downtown Miami.

FDOT PROCUREMENT PROCESS FOR A TUNNEL CONCESSIONAIRE

In December 2005, FDOT received from the Federal Highway Administration (FHWA) a Finding of No Significant Impact (FONSI) for its proposed Port tunnel project. Only two months later, in February 2006, FDOT released a Request for Qualifications (RFQ) to encourage the formation of consortia that

would ultimately propose on this complex project, and to develop a short list of qualified proposers with whom to proceed through a RFP process to select a Concessionaire. Under the RFQ and proposed RFP, FDOT is the contracting entity, not the County or City of Miami, and all completed works will be part of the State Highway system.

The RFQ process resulted in the establishment of three strong consortia capable of participating in this project, each of which has substantial experience in similar Public/Private Partnerships for tunnel projects. It is FDOT's desire to release a draft RFP (portions of this draft have been previously circulated for comment) within the next month to remain on schedule for an award this calendar year. To this end, they are hoping to receive an indication of local willingness to support the project. At the time of the RFQ issuance, FDOT anticipated that the County and State would become equal funding partners in the resulting agreement. This funding partnership, along with a host of business and operational issues, have formed the basis for our continuing discussions with FDOT officials, as described in sections below.

PROJECT COSTS AND AVAILABILITY PAYMENTS

Obviously, an undertaking of the tunnel's magnitude will be complex and expensive. Two cost estimates have been produced to date, one by Parsons Brinckerhoff (PB) and another by an independent cost estimator team led by Lachel Felice & Associates. The latest updates to these studies indicate that a Concessionaire would likely expend between \$891 million and \$1.108 billion to construct the tunnel in 2007 dollars. There are additional costs not contained within these estimates. They include program management expenses, contingency reserves and costs associated with project easements and rights of way issues. The majority of these costs are to be borne by the State, though we are still discussing with FDOT any potential additional costs to the County.

Because the ultimate design and financing structure for the project will be a function of the creative work of the consortia, better figures are unlikely to be available until the conclusion of the RFP process. Until that time, actual costs and payments structures can only be modeled. To this purpose, FDOT has contracted with Jeffrey A. Parker, & Associates (JPA), a transportation finance consultant, to produce a complex financial model designed to estimate payments to a Concessionaire for construction and operation of the tunnel. Based on the two cost estimates and the financial model, FDOT is considering placing a maximum bid amount beyond which proposals will not be considered responsive within the RFP.

STATUS OF COUNTY INVOLVEMENT

Following the State's release of the RFQ in mid-February of this year, County staff began to actively analyze the project information provided by FDOT and its consultants, both for business interruption issues at the Port and for our ability to become a funding partner. Port representatives have been meeting with FDOT representatives on a weekly basis to identify and attempt to resolve an extensive list of business interruption issues, easement and right of way issues, parking problems, and utility realignments. Additionally, Fire Rescue and the Police Department have met with the State to assure that design requirements are in place that meet and exceed the necessary life safety standards required to protect all potential users of the tunnel.

Finance and Office of Strategic Business Management (OSBM) staff have attended numerous informational workshops and meetings with JPA and FDOT personnel to accurately quantify the level of the County's financial contribution to the project. Staff has also begun to explore a number of funding sources for their ability to contribute to this project. To date, staff has looked at Port and toll user charges, gas tax options, property-based funding alternatives (as have been typically used in

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Florida for large transportation infrastructure projects), district transportation revenues, and in-kind project support. We are also exploring options, with FDOT's help, for involvement of the City of Miami.

Normally, a project of this magnitude would have the majority of funding provided by the Federal government, and a longer time-line for the various partners to come to agreement. FDOT has been incredibly cooperative to date in attempting to overcome these two project challenges. They have provided the County with full access to all of its materials and, importantly, to its internal and external professionals, who have been a great help to us. Despite these efforts, we are struggling to identify funding much beyond that which would be required of us if there were Federal participation. However, there exists today no likelihood of Federal participation in the near future. The most recent Federal transportation funding bill did not contain an earmark for this project. Federal funding cycles are lengthy, and there is no guarantee that this project would be included within the next transportation bill.

Meanwhile, the Seaport's *pro forma* is struggling to close the large gap created by unfunded security mandates and looming infrastructure needs. The newly appointed Interim Port Director, Bill Johnson, has engaged the industry in discussions as to the immediate fiscal impacts of these needs, and funding commitments to the tunnel cannot be responsibly made outside of these considerations. It was with a view to these needs that I proposed to Secretary Stutler during our May 18 meeting local support in the range of 25% of the total estimated capital cost. This percentage was significantly lower than the 50/50 capital and operating funding split initially proposed by FDOT.

Since that time, FDOT has offered to raise its commitment to 60% of the capital requirements, and potentially 100% of the operating and maintenance needs; the County commitment would thus be limited to 40% of the capital funding. However, even if a \$1 billion cap is assumed, the impact of a \$400 million in local funding commitment is significant, and far greater than would be normally required with a federally funded project.

As stated earlier in this memo, we are looking at a mix of revenue sources to provide the locally requested funding. We have available through the Building Better Communities general obligation bond program \$100 million dollars. We may also be able to redirect certain locally derived district transportation revenues equating to approximately \$70 million. Despite these contributions, a \$230 million funding gap exists in local participation for the requested 40% of construction funding. We have discussed with the FDOT County funding options that minimize interest costs by paying our portion up-front. To pursue this option would require the County to issue bonds early in the project and then begin debt service payments with the tunnel's projected opening in late 2012 or early 2013. The total remaining local funding gap would need to be covered from multiple sources including from the County through its Port, the City of Miami, and/or other stakeholders.

There also remains the separate funding issue, previously discussed, associated with our participation in project contingency and right of way funding estimated at \$200 million. The County may be asked to participate in a portion of these costs; if and at what level would require further discussion and would increase the total project cost.

What seems clear is that fully funding the local participation gap from Port revenues alone could place pressures on Port competitiveness. Any impact on the cargo industry or other port users would not be put in place until tunnel opening and after close consultation with the industry. Levying Port fees of any magnitude for the tunnel must be weighed against immediate needs of the Port relating to security and capital infrastructure. Consequently, we will continue to work with the State and the City of Miami to develop a viable alternative to provide local funding at a level, affordable to

the parties, which will allow the project to move forward.

While I have discomfort moving at such a rapid pace to meet the State's project timeline - particularly in view of substantial issues discussed in this memo that are yet to be resolved - I do recognize the opportunity that FDOT is presenting our community. Recent traffic studies point to substantial worsening of the road system over the next several years that serves eastern redevelopment zone of downtown Miami and the Port, jeopardizing their future success. In pursuing funding solutions with the State, I am weighing the value of this project to the City of Miami and the Port, along with their ability to contribute to this project. I remain aware of the potential benefit of waiting for Federal participation, as well as the substantial risks that waiting entails.

That said, I remain optimistic that we will resolve the principal project issues in the short term, as the next several months are critical to this project. We will continue to work with FDOT and the City of Miami on a local funding solution and concerning other outstanding issues. We will continue to provide updates to the Board, and we are prepared for a more in-depth discussion of the project at the Board's July 18 meeting, should the report be waived onto the agenda.

Attachments

c: Carlos Bonzon, Assistant County Manager
Pete Hernandez, Deputy County Manager
Corinne Brody, Special Assistant for Strategic Management Initiatives
Bill Johnson, Interim Director, Port of Miami
Rachel Baum, Director, Finance Department
Jennifer Glazer-Moon, Director, Office of Strategic Business Management

